

2010-12 General Government Revenue Forecast

Dept. of Finance & Administrative Services

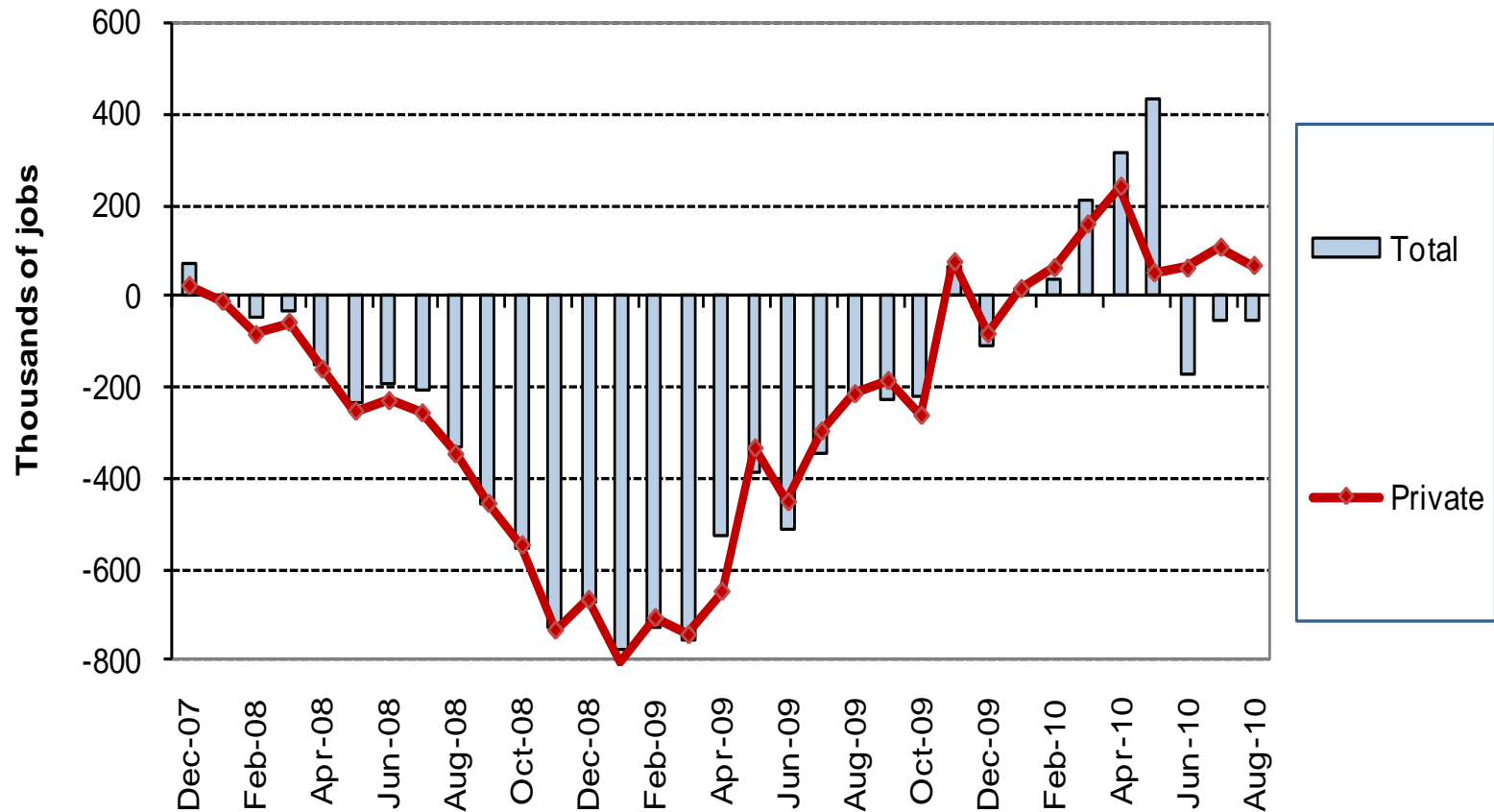
September 7, 2010

The Economy: What Has Changed Since April?

- In April, the economy was expanding aided by:
 - Inventory buildup
 - Expansion of stimulus spending
 - Expanding employment
- April forecast: modest but steady expansion with support for growth shifting to private sector via
 - Export expansion
 - Continued hiring by businesses
 - Consumers increase spending
- Global Insight: “latest evidence signals the recovery has legs”

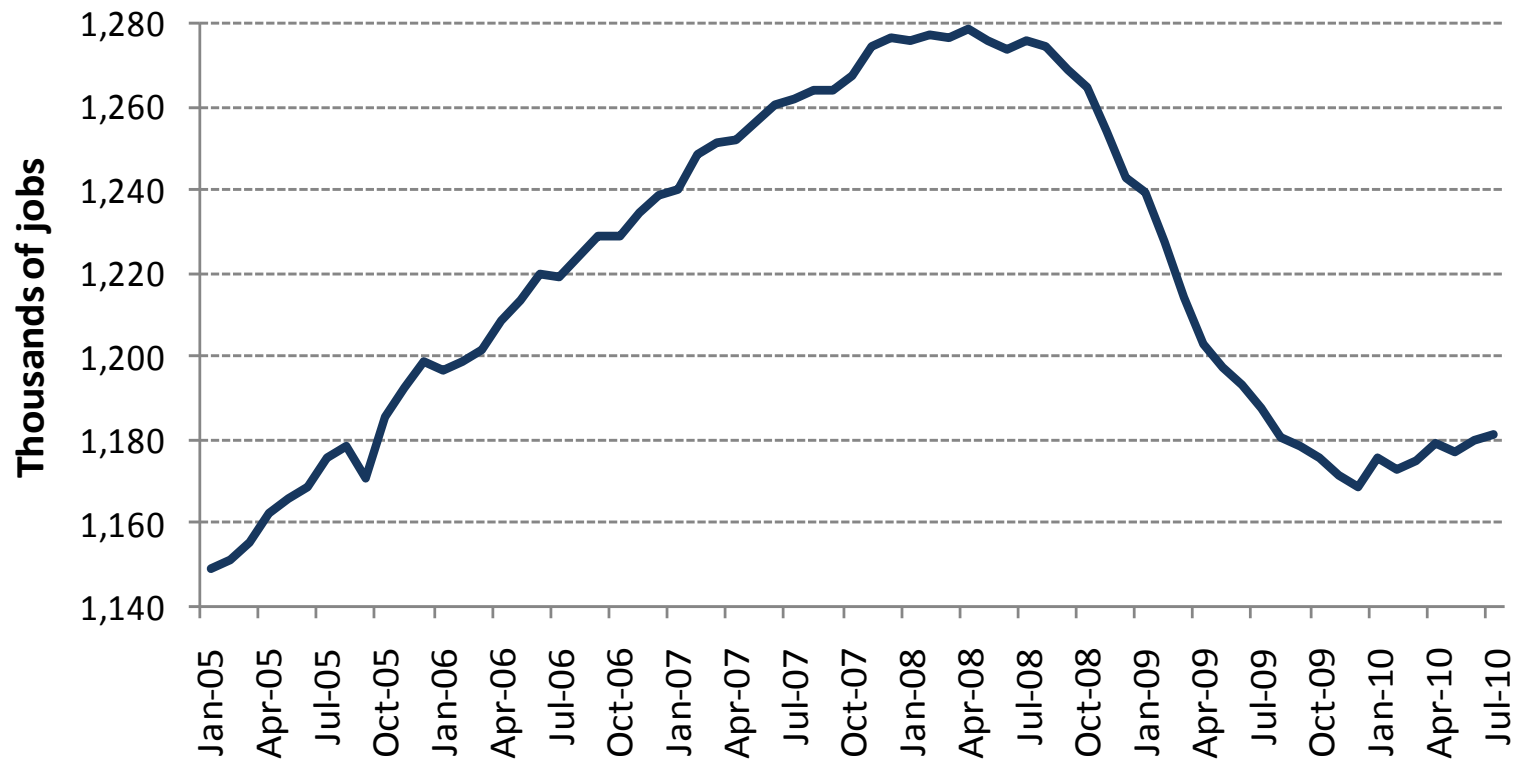
- The economy has weakened since April
 - Job growth has slowed
 - Economy slowed sharply in Q2
 - GDP growth declined to 1.6%, from 3.7% in Q1
- Causes of the slowdown
 - Weak job growth has hurt income growth & confidence
 - European / Greek debt crisis
 - Impact of stimulus on growth is waning
 - Housing weakened after tax credit expired
 - Manufacturing growth has slowed
 - Savings rate has increased

Monthly Change in U.S. Employment

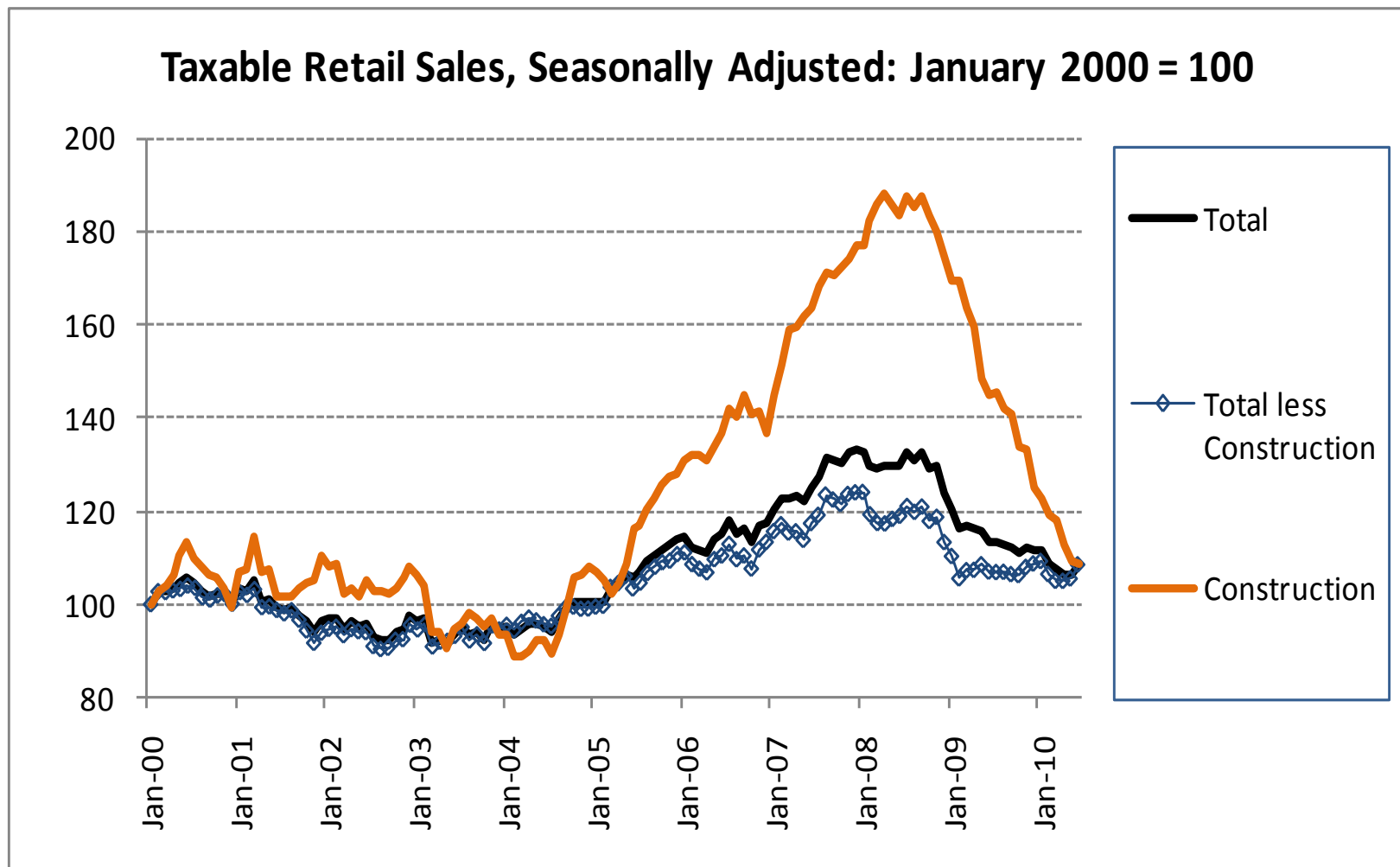


Data are seasonally adjusted. Source: U.S. Bureau of Labor Statistics.

Seattle Metro Area* Private Sector Employment



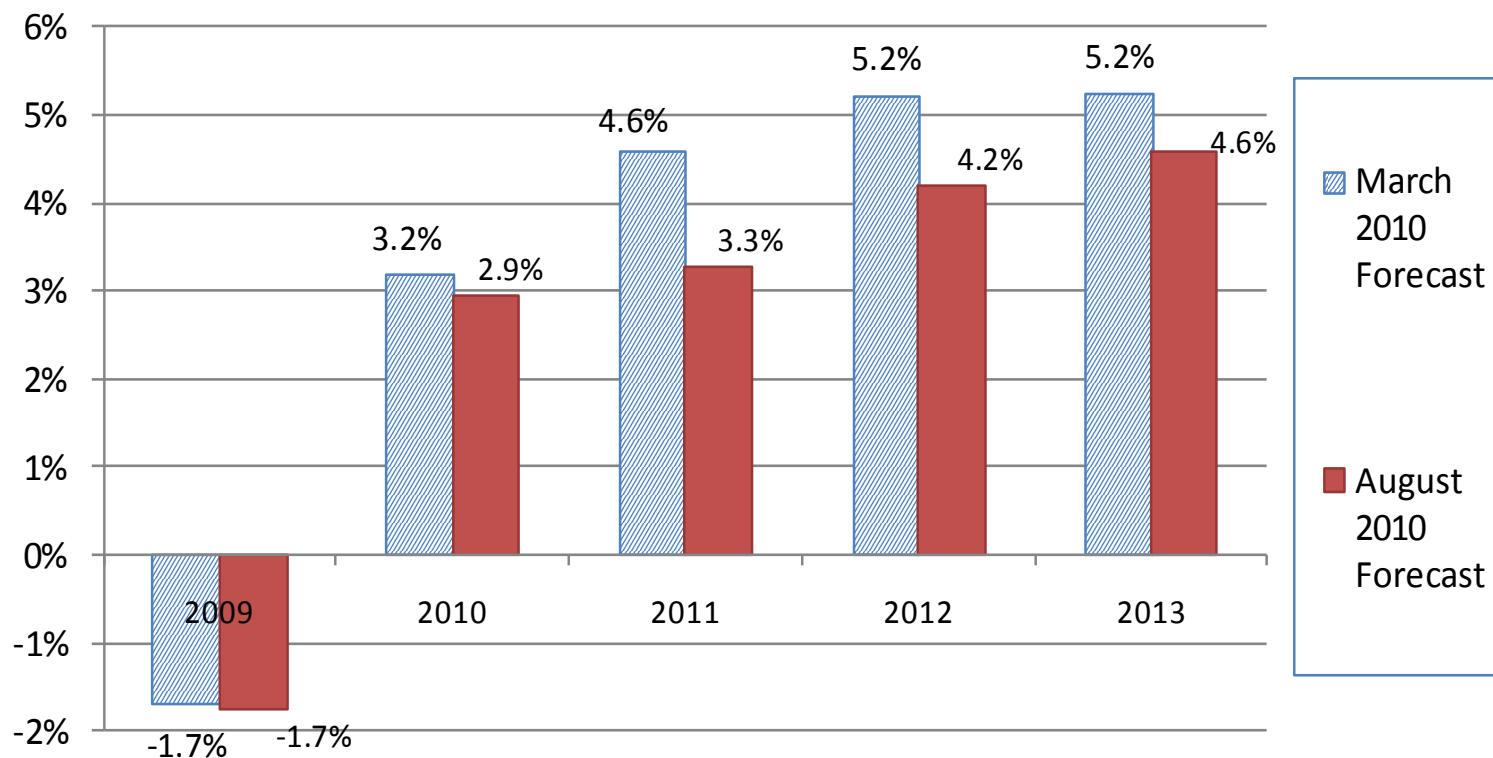
*King & Snohomish Co. Seasonally adjusted non-agricultural wage & salary employment.



- Adjusted for inflation, taxable sales are down 15% from January 2000

- National economic forecasts have been revised downward
 - Growth to be sluggish for rest of 2010, pick up in 2011
 - Fed Chairman Bernanke: outlook is “unusually uncertain”
 - Risk of double-dip recession is rising. Global Insight:
 - March: 15% probability
 - July: 20% probability
 - August: 25% probability
- State and local forecasts also have been lowered
 - September Puget Sound Region forecast
 - September WA economic forecast update
 - “Economic outlook is significantly weaker than it was in June”

March and August Forecasts of U.S. Personal Income Growth



Source: Global Insight.

Retail Sales and B&O Tax Forecast

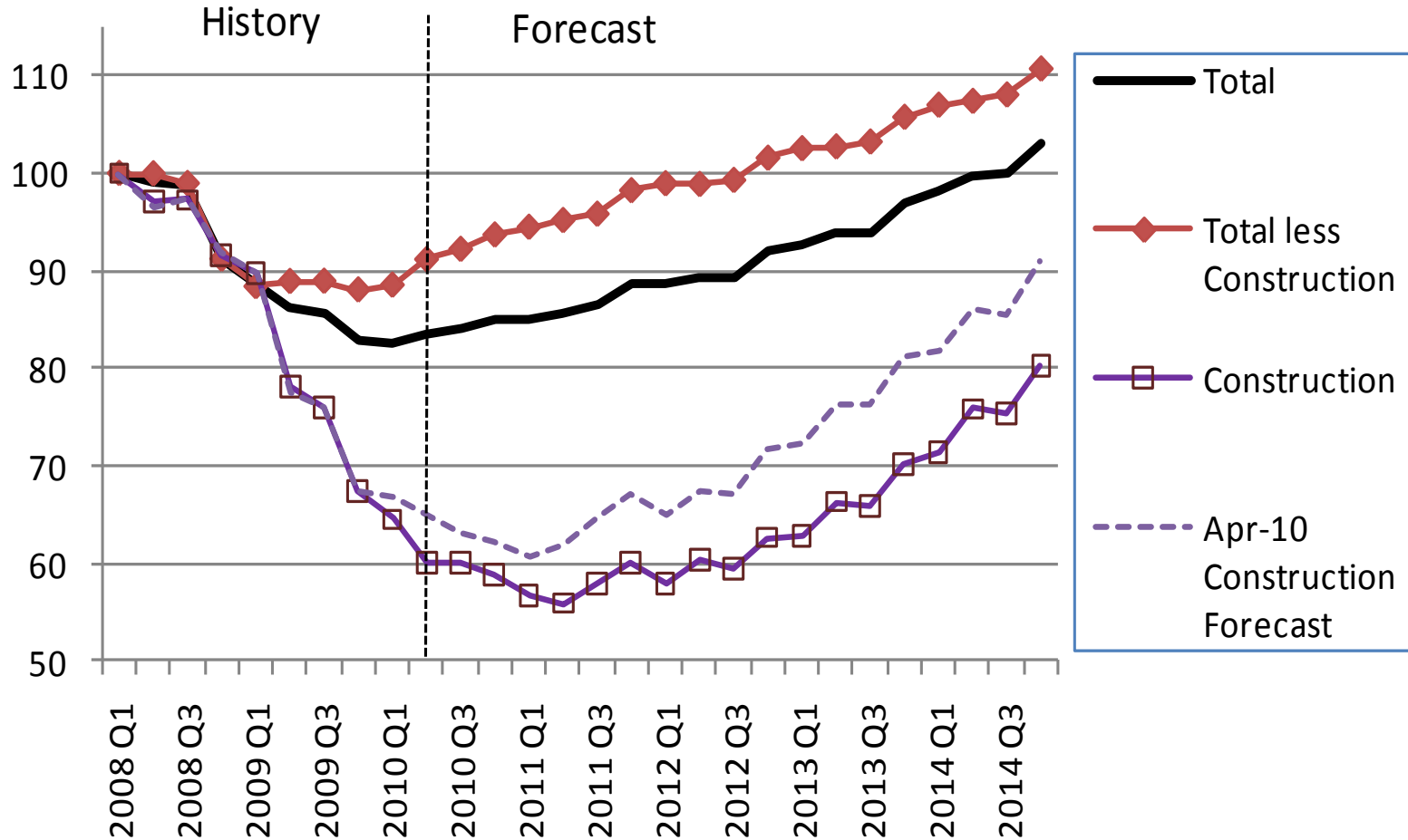
- Revenue forecasts have been lowered

Year-to-date revenue shortfalls relative to April forecast
+ weaker economic forecasts
= lower revenue forecasts

- Projected sales and B&O tax revenue growth is weak compared to recent expansions:

<u>Expansion</u>	<u>Average annual growth</u>
1995-2000	8.3%
2003-07	8.5%
2010-14	5.4%

Taxable Retail Sales, Seasonally Adjusted : 2008 Q1 = 100



August 2010 General Subfund Revenue Forecast

	2009	2010		2011		2012	
General Subfund Revenues	Actuals	Sept	Sept-Apr	Sept	Sept-Apr	Sept	Sept-Apr
Property Taxes	245,542,839	250,828,000	(218,000)	254,500,000	902,000	258,552,000	(35,000)
Business & Sales Taxes	314,915,027	311,915,807	(3,898,686)	322,744,149	(9,490,966)	340,617,499	(13,229,611)
Public Utility Taxes	100,344,650	111,307,811	(709,137)	110,925,899	(190,332)	117,009,731	1,092,379
Private Utility Taxes	66,143,608	62,216,061	346,873	60,875,699	514,651	62,312,118	1,060,545
Other Notable GSF Revenues	100,528,857	104,030,246	(3,290,449)	106,207,872	(2,776,544)	108,563,056	(2,550,494)
Core Revenue Subtotal	827,474,982	840,297,925	(7,769,399)	855,253,619	(11,041,191)	887,054,404	(13,662,181)
Real Estate Excise Tax	22,761,699	25,247,121	326,352	27,758,082	843,652	30,978,019	1,910,434
BTG - Employee Hours Tax	5,889,960	559,504	559,504	-	-	-	-
BTG - Commercial Parking Tax	18,734,495	21,840,000	-	22,387,240	(280,587)	23,199,897	(487,982)

Risks to the Forecast

- Economic risks
 - Double-dip recession
 - Estimated loss of \$12.7 mil. in 2011, \$28.2 mil. in 2012
 - Construction
- Initiatives
 - I-1107 passes, removing sales tax on candy, gum, bottled water
 - Estimated loss of \$1.2 mil. in 2011, \$1.7 mil. in 2012
 - I-1100 and/or I-1105 liquor initiatives pass
 - Range of loss is \$2 -\$4 mil. in 2011, \$4 -\$7 mil. in 2012
 - King Co. initiative to increase sales tax rate by 0.2% passes
 - Estimated gain of \$8.7 mil. in 2011, \$12.1 mil. in 2012